

FINANCIAL POLICIES

The overall goal of the county's financial policy is to establish and maintain effective management of the county's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal. Accordingly, this section outlines the policies used in guiding the preparation and management of the county's overall budget and the major objectives to be accomplished.

Financial policies are guidelines for operational and strategic decisions related to financial matters. Financial policies identify acceptable and unacceptable courses of action, establish parameters in which the government can operate, and provide a standard against which the government's fiscal performance can be judged.

The following County financial policies, endorsed by the County Commission, establish the framework for Gallatin County's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured. Gallatin County's financial policies show the credit rating industry and prospective investors (bond buyers) the County's commitment to sound financial management and fiscal integrity. The financial policies also improve the County's fiscal stability by helping County officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in County bond ratings and lower cost of capital. The County is in compliance with the comprehensive financial policies in this budget.

OPERATING BUDGET POLICIES

Links to Financial Plans

- 1) **Five-Year Plan.** Gallatin County's annual budget will be developed in accordance with the policies and priorities set forth in the five year strategic financial plan, Commission goals, the needs of the county, and state and federal laws. Program/project priorities and service levels will be established by the aforementioned plans.

Scope

- 1) **Comprehensive Budget.** A comprehensive annual budget will be prepared for all funds expended by the county. State law (7-6-4005), states that "Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund." Inclusion of all funds in the budget enables the commission, the administration, and the public to consider all financial aspects of county government when preparing, modifying, and monitoring the budget, rather than deal with the county's finances on a "piece meal" basis.

- 2) **Competing Requests.** The budget process is intended to weigh all competing requests for County resources, within expected fiscal constraints. Requests for new or ongoing programs, made outside the budget process, are discouraged.
- 3) **Understandable.** The budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials. One of the stated purposes of the budget is to present a picture of county government operations and intentions for the year to the citizens of Gallatin County. Presenting a budget document that is understandable to the citizens furthers the goal of effectively communicating local government finance issues to both elected officials and the public.

FINANCIAL POLICIES

- 4) **Budgetary Emphasis.** Budgetary emphasis will focus on providing those basic government services which provide the maximum level of services to most citizens, in the most cost effective manner, with due consideration being given to all costs--economic, fiscal, and social. Adherence to this philosophy provides citizens assurance that the County and their elected officials are responsive to the needs of citizens and that the government is operated economically and efficiently.

Budgeting Control System:

- 1) **Budgetary Control.** The County exercises budgetary control (maximum spending authority) through Commission approval of appropriation authority for each program. The budgetary control system enables the Commission to monitor current year operations and acts as an early warning mechanism when departments deviate in any substantive way from the original budget.
- 2) **Budget to Actual Reports.** Reports comparing actual revenues and expenditures to budgeted amounts are prepared monthly. These reports comparing actual revenues and expenditures to budget amounts provide the mechanism for the Commission and administration to regularly monitor compliance with the adopted budget.

Balanced Budget Definition and Requirement.

- 1) **Balanced Budget.** The county will maintain a balanced budget. This means that:
- Operating revenues plus re-appropriated working capital equal or exceed expenditures, including debt service.
 - Ending fund balance (or working capital in proprietary funds) must meet minimum policy levels.
 - Under this policy, it is allowable for expenditures to exceed revenues; however, beginning fund balance can only be used to fund capital projects, or other "one-time" non-recurring expenditures.

Performance Measurement Integration:

- 1) **Program Objectives.** The annual budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

REVENUE POLICIES

Diversification and Stabilization:

- 1) **Diversification.** The county will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one-revenue source.
- 2) **Aggressive Collection.** The county will pursue an aggressive policy of collecting revenues. An aggressive policy of collecting revenues helps to insure the county's revenue estimates are met; all taxpayers are treated fairly and consistently, with minimal delinquencies.
- 3) **Grant Opportunities.** The county will aggressively pursue opportunities for Federal or State grant funding. An aggressive policy of pursuing Federal or State grant funding provides citizens assurance that the county is striving to obtain all state and federal funds to which it is entitled --thereby reducing dependence upon local taxpayers for the support of local public services.
- 4) **Current Revenues for Current Uses.** The county will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- 5) **Enterprise Funds.** The county will set fees and rates at levels which fully recover the total direct and indirect costs—including operations, capital outlay, and debt service.

- 6) **Earmarking.** The County recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the County's management of its fiscal affairs.
- 7) **Realistic and Conservative.** The county will estimate revenues in a realistic and conservative manner. Aggressive revenue estimates significantly increase the chances of budgetary shortfalls occurring during the year--resulting in either deficit spending or required spending reductions. Realistic and conservative revenue estimates, on the other hand, serve to minimize the adverse impact of revenue shortfalls and also reduce the need for mid-year spending reductions.
- 8) **One-Time Revenues.** The county will give highest priority in the use of one-time revenues to the funding of capital assets or other non-recurring expenditures. Utilizing one-time revenues to fund on-going expenditures results in annual expenditure obligations that may be unfunded in future years. Using one-time revenues to fund capital assets or other non-recurring expenditures enables future administrations and commissions to cope with the financial problems when these revenue sources are discontinued, since these types of expenditures can more easily be eliminated.

User Fees.

- 1) **Cost-Effective.** User fees will be collected only if it is cost-effective and administratively feasible to do so. User fees are often costly to administer. Prior to establishing user fees, the costs to establish and administer the fees will be considered in order to provide assurance that the county's collection mechanisms are being operated in an efficient manner.

- 2) **Beneficiary Populations.** User fees and charges will be used, as opposed to general taxes, when distinct beneficiary populations or interest groups can be identified. User fees and charges are preferable to general taxes because user charges can provide clear demand signals that assist in determining what services to offer, their quantity, and their quality. User charges are also more equitable, since only those who use the service pay--thereby eliminating the subsidy provided by nonusers to users, which is inherent in general tax revenue.

- 3) **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while other user fees are appropriate for services that are of special benefit to identified individuals or groups.

- 4) The following general concepts will be used in developing and implementing service charges and user fees:
 - Revenues should not exceed the reasonable cost of providing the service.
 - Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information technology, legal services, fleet maintenance, and insurance.
 - The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
 - Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
 - A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

FINANCIAL POLICIES

EXPENDITURE POLICIES

Maintenance of Capital Assets:

- 1) **Capital Assets.** The budget will provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement. All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the County's equipment and infrastructure in good operating condition.

RESERVE POLICIES

Unreserved Fund Balance:

- 1) **General Fund.** The county will maintain an undesignated general fund reserve. The undesignated reserve will be used for: cash flow purposes, equipment acquisition and replacement, and to enable the county to meet unexpected expenditure demands or revenue shortfalls.
- 2) **Enterprise Funds.** Enterprise Fund Reserves will be maintained to meet three objectives: (1) ensure adequate funding for operations; (2) to ensure infrastructure repair and replacement; and, (3) to provide working capital to provide level rate charges to customers.
- 3) **Insurance Funds.** Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the County's property, liability, and health benefit risk.

- 4) **Required Reserves.** Reserves will be established for funds not available for expenditure or are legally segregated for a specific use, in accordance with Governmental Accounting and Financial Reporting Standards (GAFR). The County's policy is to manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). This policy is consistent with GASB requirements.

Utilizing Unreserved Fund Balances:

- 1) **Spending Reserves.** On-going expenditures will be limited to levels that can be supported by current revenues. Utilization of reserves to fund on-going expenditures will produce a balanced budget, however, this practice will eventually cause severe financial problems. Once reserve levels are depleted, the county would face elimination of on-going costs in order to balance the budget. Therefore, the funding of on-going expenditures will be limited to current revenues.

CAPITAL IMPROVEMENT POLICIES

Capital Improvement Program (CIP) Formulation:

- 1) **CIP Purpose.** The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the County's existing fixed assets.

- 2) **CIP Criteria.** Construction projects and capital purchases of \$50,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$50,000 will be included in the regular budget as capital expenditures. The CIP differentiates the financing of high cost long-lived physical improvements from low cost "consumable" equipment items contained in the operating budget. CIP items may be funded through debt financing or current revenues while operating budget items are annual or routine in nature and should only be financed from current revenues.
- 3) **Deteriorating Infrastructure.** The County Budget includes, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of infrastructure and avoidance of a significant unfunded liability.

Project Financing.

- 1) **Minor Capital Projects.** Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues. Minor capital projects or recurring capital projects represent relatively small costs of an on-going nature, and therefore, should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.
- 2) **Major Capital Projects.** Major capital projects, which benefit future residents, will be financed with other financing sources (e.g. debt financing). Major capital projects represent large expenditures of a non-recurring nature that primarily benefit future residents. Debt financing provides a means of generating sufficient funds to pay for the costs of major projects. Debt financing also enables the costs of the project to be supported by those who benefit from the project, since debt service payments will be funded through charges to future residents.

DEBT MANAGEMENT POLICIES

Restrictions on Debt Issuance:

- 1) **Repayment of Borrowed Funds.** The county will repay borrowed funds, used for capital projects, within a period not to exceed the expected useful life of the project. This policy reflects the view that residents benefiting from a project should pay for the project. Adherence to this policy helps prevent the county from over-extending itself with regard to the incurrence of future debt.

Limitations on Outstanding Debt:

- 1) **Reliance on Long-Term Debt.** The County will limit long-term debt to capital improvements that cannot be financed from current revenues. Incurring long-term debt serves to obligate future taxpayers. Excess reliance on long-term debt causes debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents can pay debt.
- 2) **Debt Not Used for Current Operations.** The county will not use long-term debt for financing current operations. This policy reflects the view that residents benefiting from a service pay for the service. Utilization of long-term debt to support current operations would result in future residents supporting services provided in the past.

Debt Refinancing

- 1) **General Refinancing Guidelines.** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancing will be considered (within federal tax law constraints) as follows:
 - There is a net economic benefit.
 - It is needed to modernize covenants that are adversely affecting the County's financial position or operations.
 - The County wants to reduce the principal outstanding in order to achieve future working capital.

FINANCIAL POLICIES

- 2) **Standards for Economic Savings.** In general, refinancing for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
- 3) **Net Present Value Savings.** Refinancing that produces net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt. Refinancing with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

- 1) **GAAP.** The County will manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). GASB is recognized as the authority with respect to governmental accounting. Managing the county's finances in accordance with GAAP and in accordance with the rules set forth by GASB, provides the citizens of Gallatin County assurance that their public funds are being accounted for in a proper manner.
- 2) **Basis of Accounting.** The county will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or payment of cash. Adherence to this policy will enable the county to prepare its financial statements in accordance

with Generally Accepted Accounting Principles as set forth by the Governmental Accounting Standards Board. The basis of accounting is the same for both the budget and the financial statements.

- 3) **Financial Report.** Gallatin County will prepare an Annual Financial Report (AFR) in conformity with Generally Accepted Accounting Principles (GAAP). The report will be made available to the general public.
- 4) **Audits.** An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the County's published Annual Financial Report (AFR). Audits of the county's financial records provide the public assurance that its funds are being expended in accordance with Local, State, and Federal law and in accordance with Generally Accepted Accounting Principles. Audits also provide management and the Commission with suggestions for improvement in its financial operations from independent experts in the accounting field.